HOUSE OF COMMONS
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CANADA

SPECIAL EXAMINATION REPORT - ATOMIC ENERGY OF CANADA LIMITED, OF THE 2017 FALL REPORTS OF THE AUDITOR GENERAL OF CANADA

Report of the Standing Committee on Public Accounts

The Honourable Kevin Sorenson, Chair

JUNE 2018
42nd PARLIAMENT, 1st SESSION

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NOTICE TO READER

Reports from committee presented to the House of Commons

Presenting a report to the House is the way a committee makes public its findings and recommendations on a particular topic. Substantive reports on a subject-matter study usually contain a synopsis of the testimony heard, the recommendations made by the committee, as well as the reasons for those recommendations.

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THE STANDING COMMITTEE ON PUBLIC ACCOUNTS

has the honour to present its

FORTY-NINTH REPORT

Pursuant to its mandate under Standing Order 108(3)(*g*), the Committee has studied the Special Examination Report - Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada and has agreed to report the following:

HOUSE OF COMMONS
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SPECIAL EXAMINATION REPORT - ATOMIC ENERGY OF CANADA LIMITED, OF THE 2017 FALL REPORTS OF THE AUDITOR GENERAL OF CANADA

INTRODUCTION

According to the Office of the Auditor General of Canada (OAG), "Atomic Energy of Canada Limited (the Corporation or AECL) is a federal Crown corporation, reporting to Parliament through the Minister of Natural Resources." Its mandate is "to enable nuclear science and technology and fulfill Canada's radioactive waste and decommissioning responsibilities. It receives federal funding and delivers its mandate through long-term contracts with a private-sector contractor for the management and operation of its sites."[1] This type of model is called Government-owned, Contractor-operated (GoCo). AECL's Board of Directors oversees the Corporation's operations and fulfills its obligations under the *Financial Administration Act*.[2]

There was a major restructuring of AECL from 2009 to September 2015. Further to this restructuring, the private-sector contractor selected was the Canadian National Energy Alliance (CNEA). AECL transferred ownership of its subsidiary, the Canadian Nuclear Laboratories (CNL), to the CNEA. AECL therefore delivers its mandate through long-term contracts with both the CNEA and the CNL, together called "the contractor."[3] The CNEA is owned by a consortium of four companies: CH2M HILL Companies Ltd., WS Atkins International Ltd., Fluor Enterprises, Inc., and SNC-Lavalin Group Inc.[4]

Therefore, there is one general contract between AECL and the contractor and three separate agreements:

1) A site operating company agreement – which "covers the contractor's decommissioning and waste management activities at Chalk River Laboratories and other satellite sites, its science and technology program at Chalk River, and the revitalization of the Chalk River campus."

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1 Office of the Auditor General of Canada (OAG), "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," paras. 1 and 3.

2 Ibid., Exhibit 1.

3 Ibid., paras. 2 and 3.

4 Ibid., Exhibit 1.

2) **A Whiteshell Laboratories target cost agreement** – which "covers the closure of Whiteshell Laboratories, in Pinawa, Manitoba."

3) **A nuclear power demonstration reactor target cost agreement** – which "covers the closure of the Nuclear Power Demonstration reactor's waste management facility, near Rolphton, Ontario."[5]

Part of AECL's mandate concerns "decommissioning and waste management to deal with the results of decades of nuclear activities at the Corporation's sites and with the cleanup of waste at orphan sites for which the federal government has assumed responsibility. The cost of this work is estimated at over $7.9 billion as of 31 March 2016."[6]

According to the OAG, "[t]he Corporation has its headquarters in Chalk River, Ontario. The Chalk River site is the Corporation's main laboratory campus and Canada's largest research and development complex. The site is also the location of research and development facilities, including the National Research Universal reactor ([which closed] in March 2018). The Corporation's work is conducted by a small group of approximately 40 full-time employees. Federal funding for the 2016–17 fiscal year was set at $969 million, to be used toward the contractor's operating expenses and the Corporation's operations."[7]

The OAG conducted a performance audit to determine whether the AECL systems and practices selected for examination–corporate management practices, human resources and contract management–"were providing it with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively as required by section 138 of the *Financial Administration Act*."[8]

On 8 May 2018, the House of Commons Standing Committee on Public Accounts met to discuss the audit. The following witnesses appeared: from the OAG, Clyde McLennan, Assistant Auditor General, and Patrick Polan, Director; and, from AECL, Claude Lajeunesse, Chair of the Board of Directors, and Richard Sexton, President and Chief Executive Officer.[9]

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5 Ibid.

6 Ibid., para. 7.

7 Ibid., para. 5.

8 Ibid., paras. 9 and 10.

9 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 8 May 2018, Meeting No. 97.

FINDINGS AND RECOMMENDATIONS

A. Corporate Management Practices

1. Corporate Governance and Related Practices

a) Governance

According to the OAG, "[t]he full complement of the Board is from five to seven members, appointed by the Governor in Council, a process outside the control of the Corporation. Two committees support the Board: the Audit Committee and the Human Resources and Governance Committee. Expected Board competencies include extensive knowledge and experience in the areas of energy operations, science and technology, and international commerce."[10]

In January 2017, "instead of a full complement, there were only four members of the Corporation's Board of Directors, all holding office on an interim basis."[11] According to the OAG, the fact that the Board did not have a full complement of members and those serving on the Board all held office on an interim basis was a significant deficiency. An additional weakness identified by the OAG was the "temporary approach to filling the President and Chief Executive Officer position."[12] At the time of the audit, "the Governor in Council had not yet appointed a new President and Chief Executive Officer."[13] However, "after the audit period, an interim President and Chief Executive Officer was appointed for a one-year period."[14]

Consequently, the OAG made the following recommendation:

> The Corporation should continue to engage with the Minister of Natural Resources on the need for the timely appointment of the President and Chief Executive Officer and of a full complement of members to its Board of Directors. It should also reinforce the need for staggered terms of office to ensure continuity.[15]

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10 OAG, "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," para. 16.

11 Ibid., Exhibit 2.

12 Ibid., para. 24.

13 Ibid.

14 Ibid.

15 Ibid., para. 25.

According to AECL's Detailed Action Plan, in February 2018 the Governor in Council "appointed Richard Sexton as the President and Chief Executive Officer of AECL for a two-year term. This follows Mr. Sexton's previous appointment as President and CEO on an interim basis." In June 2017, the Governor in Council "also appointed the Chair of the Board of AECL along with four members of the Board, consisting of three new members and one interim appointee becoming a permanent appointee. Of the five appointments, three appointments are for three years and two appointments are for two years, thus providing for staggered terms of office."[16]

According to the OAG, "a board needs an appropriate set of skills, knowledge and experience."[17] Regarding the experience of the recently appointed Board members, Claude Lajeunesse, Chair of the Board of Directors, described one Board member as bringing "the audit background and also the expertise as a board member," another as having expertise "on the nuclear side and also with major projects," a third as bringing "outstanding expertise as a risk expert, amongst other talents," and a fourth as bringing to AECL's Board "this knowledge of government,"[18] as he has worked for the government for a long time, currently as associate deputy minister at Natural Resources Canada. Later, he added that there were six individuals already on the Board, as the President and Chief Executive Officer is considered a Board member, and that AECL had recently "undertaken with PCO discussions on how to appoint the seventh board member."[19]

The Committee is satisfied with the measures taken by AECL, which directly address the OAG's recommendation, and therefore has no recommendations to make in this regard.

b) Strategic Planning

According to the OAG, "the contractor is currently developing 5- and 10-year strategic plans setting out a long-term vision of the Corporation. Upon Board approval, the strategic plans will provide the basis for future corporate plans and, in turn, for the Annual Program of Work and Budget, identifying all activities to be performed by the contractor for the year for the operation of Chalk River Laboratories and other satellite sites."[20]

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16 Atomic Energy of Canada Limited (AECL), Detailed Action Plan, p. 1-2.

17 OAG, "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," para. 23.

18 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 8 May 2018, Meeting No. 97, 1600.

19 Ibid., 1655.

20 OAG, "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," para. 18.

According to the OAG, another weakness was identified, as "a temporary approach to filling the President and Chief Executive Officer position could seriously compromise the continuity of leadership needed during this time, when the Corporation is developing its strategic plans."[21]

Consequently, the OAG made the following recommendation:

> The Corporation should plan for an orderly transition, during which the newly appointed Board members and the President and Chief Executive Officer have the opportunity to familiarize themselves with the initial goal of restructuring; the resulting Government-owned, Contractor-operated arrangement; and the Corporation's strategic plans. They should also have the opportunity to provide guidance on modifying and implementing the plans.[22]

In response to this recommendation, the Chair of the Board of Directors said that in February 2018, "the Governor General in Council appointed a president and CEO for a two-year term and selected Richard Sexton."[23] According to its Detailed Action Plan, "AECL had put in place an onboarding program for new members of the Board of Directors and the President and CEO in order to enable an orderly transition." In addition, "the three members of the Board newly appointed in June 2017 have all participated in the aforementioned onboarding program. With the benefit of the onboarding program and as part of their ongoing orientation and continuing education, they will also have the opportunity to provide guidance on modifying and implementing plans."[24]

The Committee is satisfied with the measures taken to respond to the OAG's recommendation and therefore has no recommendations to make in this regard.

c) Risk Management

According to the OAG, the AECL Board "had not yet implemented a formal, systematic process for monitoring and reporting on risks identified in the corporate risk register,[25] which was considered as a weakness.

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21 Ibid., para. 24.

22 Ibid., para. 26.

23 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 8 May 2018, Meeting No. 97, 1545.

24 AECL, Detailed Action Plan, p. 2-3.

25 OAG, "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," para. 24.

Consequently, the OAG made the following recommendation:

> The Board should strengthen and improve its process for monitoring and reviewing risks listed in its risk register and should appropriately document discussions and actions.[26]

In response to this recommendation, AECL noted that the 2015 risk register is reviewed and updated quarterly and that it "has engaged an expert third party to improve its risk monitoring and review procedures. The periodic review of the corporate risk register is now a formal part of the Audit Committee Annual Work Plan and meeting agendas."[27]

Again, the Committee believes that the measures already taken by the Corporation respond to the OAG's recommendation and therefore has no recommendations to make in this regard.

d) Performance Measurement and Reporting

With regard to performance measurement, the OAG found two weaknesses:

1) The reporting framework in the Corporate Plan did not demonstrate how the Corporation would measure the overall objectives of restructuring, which were to enhance efficiency and effectiveness, and to contain and reduce costs and risks for Canadians over time.

2) Since 2009, the Board had not held public meetings as required by the *Financial Administration Act*.[28] Section 113.1 (1) of the Act states that a Crown corporation must hold a public meeting within 18 months after its first meeting and, subsequently, within 15 months after its last public meeting.

Consequently, the OAG made the following recommendation:

> The Corporation should develop a more detailed reporting framework so that it can better measure and demonstrate to Canadians that it is enhancing efficiency and effectiveness, and is containing and reducing costs and risks over time. The Board should hold periodic public meetings, as required by the *Financial Administration Act*, to present its annual report and provide information on the [GoCo] model.[29]

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26 Ibid., para. 27.

27 Ibid.

28 Ibid., Exhibit 2.

29 Ibid., para. 28.

As to the assessment of AECL's efficiency and effectiveness, according to its Detailed Action Plan, "AECL has developed a high-level performance measurement plan, which focuses on efforts to measure and demonstrate the objectives of the [GoCo] model, namely to enhance efficiency and effectiveness, and contain risks and costs over time. This includes measuring [the CNL's] performance, which is being done on an ongoing basis through a series of measures and targets, some of which are presented and reported upon in AECL's Corporate Plan. AECL will also review and update performance measures annually to ensure alignment to objectives.[30]

As to public meetings, according to its Detailed Action Plan, a "public meeting was held on May 8, 2017."[31] In addition, AECL held a public meeting on 10 May 2018.[32]

The Committee is satisfied with the holding of annual public meetings. However, it would be important to know all the measures and targets in the CNL's performance assessment. Additionally, although not specifically studied in the OAG's special examination, a question was raised regarding the targets and measures for nuclear waste management in AECL's performance assessment of the CNL not being comprehensive. Therefore, the Committee recommends:

RECOMMENDATION 1 – Regarding performance measurement of the *Canadian Nuclear Laboratories*

That, by 31 December 2018, *Atomic Energy of Canada Limited* present the House of Commons Standing Committee on Public Accounts a report outlining all the measures and targets in its performance assessment of the *Canadian Nuclear Laboratories*.

2. Human Resources Management

According to the OAG, "CNL's staff consists mainly of persons who were employed by AECL before restructuring."[33] According to Claude Lajeunesse, Chair of the Board of Directors, "CNL does the work, the research, the decommissioning, waste management, and so on. The role of the 40 people in AECL is to ensure that the objectives of the

30 AECL, Detailed Action Plan, p. 4.

31 Ibid.

32 AECL, News, Notice of Public Meeting.

33 OAG, "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," Exhibit 1.

government are met."[34] The OAG found that "the Corporation had good systems and practices in succession planning for key positions, and in training and development. However, [the OAG] found a weakness in compensation."[35] For example, some "elements of the Corporation's salary structure were not aligned with the President and Chief Executive Officer's remuneration as established by the Governor in Council after restructuring."[36]

This is due to the fact that, while restructuring was under way, "the Corporation acknowledged that before hiring employees, it needed to know the new salary level for the President and Chief Executive Officer position of the restructured Corporation, which informs the salary structure for the rest of the Corporation. Starting in December 2014, the Corporation hired its senior employees, referring to an external compensation review, which presented a salary structure aligned with the President and Chief Executive Officer's salary level before restructuring. The Board approved this salary structure. Subsequently, the Governor in Council approved a decrease in the President and Chief Executive Officer's salary of approximately $100,000; this took into account changes in the responsibilities of the President and Chief Executive Officer, changes in the role of the Corporation, and the resulting reduction in the number of its employees (40 instead of 3,400). As a result, at the time of [the] audit, some elements of the Corporation's salary structure were not aligned with the President and Chief Executive Officer's remuneration as established by the Governor in Council after restructuring."[37]

Furthermore, according to the OAG, "to ensure transparency, it is a good practice for the Corporation to disclose its compensation framework as well as total compensation for senior managers in its annual report."[38]

For these reasons, the OAG made the following recommendation:

> **The Corporation should address the alignment in remuneration by engaging with the Minister of Natural Resources. In its annual report, it should consider providing additional insight and disclosure concerning its compensation framework.**[39]

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34 House of Commons Standing Committee on Public Accounts, *Evidence*, 1st Session, 42nd Parliament, 8 May 2018, Meeting No. 97, 1655.

35 OAG, "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," para. 29.

36 Ibid., Exhibit 3.

37 Ibid., para. 30.

38 Ibid., para. 32.

39 Ibid., para. 33.

According to its Detailed Action Plan, "[s]tarting with its Fiscal 2016-17 Annual Report, AECL has included additional insight and disclosure on its compensation framework. As in previous years, AECL has also included the total compensation for senior managers in its Annual Report, as per the accounting and reporting standards under which AECL reports."[40]

As to salary structure, according to its Detailed Action Plan, "AECL will periodically review its compensation philosophy and propose adjustments as appropriate to achieve the goal of attracting and retaining employees needed to fulfill its mandate. Adjustments will be approved by the Board of Directors and its committees, in-line with governance requirements."[41]

The Committee agrees that AECL now discloses more information about the compensation of its managers. However, its method of adjusting the salaries of employees and managers, compared with the compensation of the President and Chief Executive Officer, is rather unclear.

B. Contract Management

The OAG found that "despite the challenges it faced throughout its transition to a [(GoCo] business model, the Corporation did a good job in implementing systems and practices to monitor its GoCo arrangement."[42]

However, the OAG noted the following weakness in terms of the skills and competencies of contract management staff: "Except for the Lead Contracting Officer, the Corporation's contracting team had limited experience working with the GoCo model in the Canadian nuclear sector. The model was new in that sector, and relatively few individuals had the unique skill set required. It was a challenge for the Corporation to find someone with the right expertise and experience. In the end, the Corporation hired the Lead Contracting Officer from abroad for a three-year term. At the time of [the] audit, the Lead Contracting Officer was the only member of the contract management team who had previous experience with the GoCo model."[43]

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40 AECL, Detailed Action Plan, p. 5.

41 Ibid.

42 OAG, "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," para. 34.

43 Ibid., para. 42.

Consequently, the OAG made the following recommendation:

> The Corporation should strengthen the skills and competencies of the contract management team to manage the overall performance of the contractor in the context of the [GoCo].[44]

According to its Detailed Action Plan, "AECL has strengthened the skills and competencies of the contract management team through both formal classroom and on-the-job training. The Lead Contract Officer, who was recognized by the OAG as having extensive experience in managing GoCo contracts, has continued to provide comprehensive on-the job training and mentorship to the AECL contract management staff since the time of the OAG review." In addition, the training program "will be applied to all contract management staff, both existing and new."[45]

The Committee wants to ensure that all employees on the contract management team receive the new contract management training program. Therefore, the Committee recommends:

RECOMMENDATION 2 – Regarding contract management training

That, by 31 December 2018, *Atomic Energy of Canada Limited* present the House of Commons Standing Committee on Public Accounts a report outlining the percentage of existing and new employees on the contract management team that have completed the contract management training program.

CONCLUSION

The Committee concludes that with the exception of the significant deficiency the OAG found in Board renewal, there were no significant deficiencies in AECL's systems and practices.[46] Following the OAG's audit, the AECL's Board of Directors has been effectively renewed and the Corporation took a series of adequate measures to respond to the OAG's recommendations. However, the Committee made two recommendations to ensure follow-up with respect to the CNL' performance measurement and the training to be completed by its contract management team.

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44 Ibid., para. 45.

45 AECL, Detailed Action Plan, p. 6.

46 OAG, "Special Examination Report—Atomic Energy of Canada Limited, of the 2017 Fall Reports of the Auditor General of Canada," para. 46.

SUMMARY OF RECOMMENDED MEASURES AND DEADLINES

Table 1 – Summary of Recommended Measures and Deadlines

Recommendation	Recommended Measure	Deadline
Recommendation 1	*Atomic Energy of Canada Limited* (AECL) should provide the House of Commons Standing Committee on Public Accounts with a report outlining all the measures and targets in its performance assessment of the *Canadian Nuclear Laboratories*.	31 December 2018
Recommendation 2	AECL should provide the Committee with a report outlining the percentage of existing and new employees on the contract management team that have completed the contract management training program.	31 December 2018

APPENDIX A
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Atomic Energy of Canada Limited	2018/05/08	97
Claude Lajeunesse, Chair of the Board of Directors		
Richard Sexton, President and Chief Executive Officer		
Office of the Auditor General		
Clyde MacLellan, Assistant Auditor General		
Patrick Polan, Director		

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant *Minutes of Proceedings* (Meetings Nos. 97 and 99) is tabled.

Respectfully submitted,

Hon. Kevin Sorenson, MP
Chair